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crows nest
industries limited
77th
annual report

1973





CROWS NEST INDUSTRIES LIMITED

SEVENTY-SEVENTH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1973

Including Wholly-Owned Subsidiary Companies

Established 1897

Corporate information

OFFICERS

THOMAS F. GLEED, Chairman
M. BRUCE PEPPER, President
J. J. CRABB, Vice President, Exploration
BRIAN C. PINNELL, Secretary-Treasurer,
Comptroller

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED,
Toronto
SEATTLE-FIRST NATIONAL BANK, Seattle

SHARE LISTING

TORONTO STOCK EXCHANGE — ticker
abbreviation CNC

AUDITORS

CLARKSON, GORDON & CO., Calgary

BANKERS

BANK OF MONTREAL
CANADIAN IMPERIAL BANK OF COMMERCE
SEATTLE-FIRST NATIONAL BANK

OPERATIONS

HEAD OFFICE — Fernie, British Columbia
SAWMILL — Elko, British Columbia

Subsidiary Companies

CROW'S NEST PASS ELECTRIC LIGHT
& POWER COMPANY LIMITED

CROWS NEST FOREST PRODUCTS COMPANY
LIMITED

THE CROW'S NEST PASS OIL & GAS
COMPANY, LIMITED

CROWS NEST PLYWOODS LIMITED

EAST KOOTENAY LUMBER COMPANY
LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

FERNIE EQUIPMENT COMPANY, LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

KNIGHT LUMBER COMPANY LIMITED

KOOTENAY AND ELK RAILWAY COMPANY

THE MORRISSEY, FERNIE & MICHEL
RAILWAY COMPANY

ST. MARYS LUMBER CO. LTD.

TRANSPAC CORPORATION



Chairman's Statement to Shareholders

With more than usual satisfaction, I suggest a careful examination of the Annual Report of your Company for a review of operations and related references to present and potential earnings and costs.

Profitability for 1973 was excellent, but even more important, 1973 witnessed the development of "on the ground" management.

Your President, M. Bruce Pepper, whose report on operations follows, has performed in a manner demonstrating outstanding executive ability.



THOMAS F. GLEED
Chairman

President's Report on Operations

1973 was a successful year for Crows Nest Industries Limited. Income of \$2,892,000 (\$3.87 per share) in 1973 before extraordinary items, increased from \$1,697,000 (\$2.28 per share) in 1972. These record earnings enabled the pay-

ment of a special dividend of 50 cents per common share in 1973 in addition to the regular dividend of 50 cents.

Forest Products

Historically high wholesale lumber prices throughout 1973 provided a substantial gain in income. Improvements in sawmill performance made it possible to take advantage of the favorable lumber market by recording a 19% increase in sales volume. Earnings in the last quarter of 1973 decreased sharply as lumber prices declined from their peaks.

Once again the major portion of lumber sales was exported, primarily to the U.S. A small part of the 1973 volume was sold offshore in order to broaden the market base.

During the first half of 1973, there was a serious rail car shortage, both for lumber and chips. To aid in coping with this problem, an additional U.S. lumber market area was developed and served by trucking to Eureka, Montana for U.S. rail shipment.

Manufacturing cost increases outpaced productivity gains. The rate of rise in expenditures was most noticeable in the last three months of 1973. The year's costs were 15% greater than 1972 levels. Nearly all of the increase is attributable to higher logging expenditures, which include the provincial levy for stumpage accounting for 60% of the increment.



Board of Directors

Left to right: Henry C. Judd, Menlo Park, Retired; Clifford L. Larock, Montreal, Chairman and Director, Pembroke Management Ltd.; John W. Pitts, Vancouver, President, Okanagan Helicopters; F. Drewe Pratt, Vancouver, Lawyer; William R. Prentice, Retired; Thomas F. Gleed, Seattle, Chairman; M. B. Pepper, President; Neil B. Ivory, Montreal, President and Director, Pembroke Management Ltd.; George V. Powell, Seattle, Lawyer; D. E. Skinner, Seattle, President, Skinner Corporation.

The greatest problem facing the Company's forest products operation at the present time is the increased cost connected with the smaller size of available timber. Logging for small wood is more costly and, in addition, the manufacturing facilities need to handle more pieces to achieve the desired production volume. Both of the above factors increase the end costs of lumber.

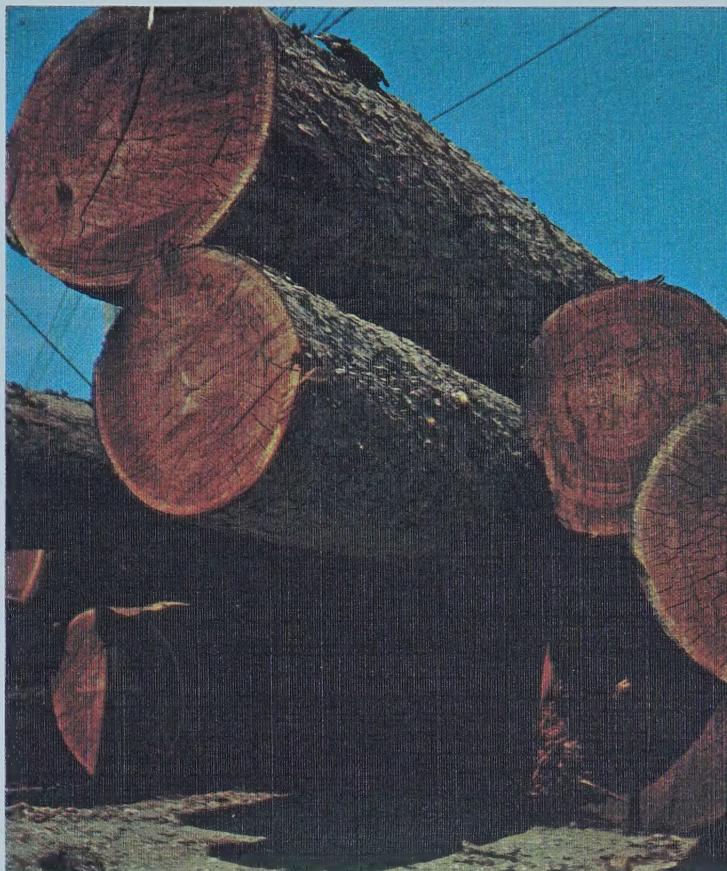
Efforts are continually made to examine and re-examine the manufacturing facilities to ensure maximum recovery from raw materials. Vigilance is exercised over the total operation to ensure top efficiency of processing facilities. Where necessary, expenditures are made to increase productivity.

Significant outlays were made on construction and rebuilding of 241 miles of main and access logging roads. A substantial portion of the road construction costs were incurred for the development of timber to be harvested in future years. The Company's road system is made available to the public for their use for recreational and private purposes on non-working days. Restrictions on use at other times are imposed for the safety of employees and users.

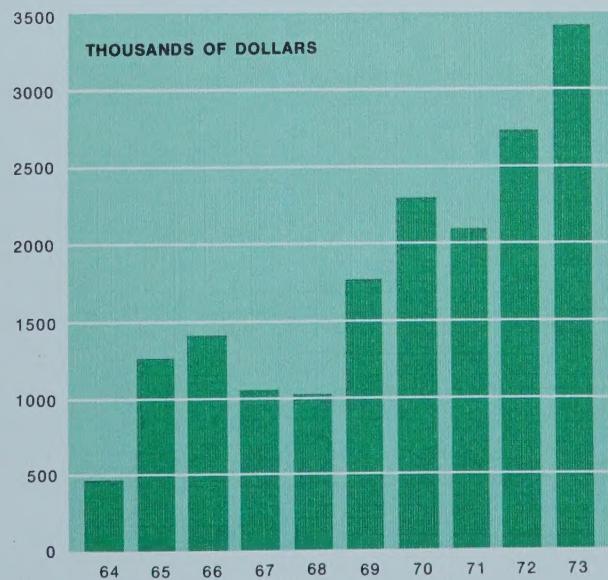
Other Resources

The Crows Nest Pass Oil and Gas Company, Limited, a wholly owned subsidiary, contributed \$443,000 to the income and \$593,000 to the cash flow in 1973. The oil production from the producing fields in which the Company has an interest is decreasing approximately 10% per year. This decline has been partially offset by increased gas sales and higher prices for crude and natural gas.

Considerable attention has been given to and interest expressed in the Company's attractive coal licences north of Sparwood, B.C. Arrange-



ments for development of these properties are being actively pursued and have been stimulated somewhat by rapidly increasing world coking coal prices and an overall awareness of energy-source values. Over \$1½ million has been spent on the acquisition, exploration and confirmation of the Company's Line Creek Coal properties. It is expected that further exploration work on surrounding properties will take



FOREST PRODUCTS DIVISION WAGE PAYROLLS

1964	\$ 489,198
1965	1,271,606
1966	1,425,254
1967	1,058,428
1968	1,025,592
1969	1,793,818
1970	2,301,370
1971	2,097,978
1972	2,740,291
1973	3,417,857
	<u>\$17,621,392</u>

place in 1974, to determine the possibility of mine development in those areas. Reclamation of prior years' exploration workings has been completed to the satisfaction of the interested regulatory departments.

Construction commenced on the Kootenay and Elk Railway in the spring of 1973. It was halted when the Provincial Government refused to grant the necessary rights-of-way across crown land. Management is of the opinion that expenditures made to date in connection with the K & E will ultimately be of considerable value to the Company and necessary for the full development of the area which the railway is designed to serve.

Much of the Company's 300,000 acres of land is committed to, and is most suitable for, tree farm use. There are other pockets that are now and have been in the past, under consideration for recreational, commercial, industrial and residential purposes. Several studies and reports have been prepared in the past year in an effort to determine and appraise the value of these particular parcels for the various proposed uses.

Crows Nest and the Community

A major contribution is made to the economy of the community through salaries and wages paid. During 1973 the Company paid \$4,254,000 to its employees, which numbered 391 at the year end, an increase of 22% over the sum paid in the previous year. In addition, substantial earnings of contractors and their employees, numbering 300, are attributable to the activities of Crows Nest Industries.

A new hospital under construction in Fernie will provide much improved hospital services to the people of the Elk Valley. To enhance the basic facilities, the Company has provided funds to equip a complete physiotherapy ward.

The Company, in cooperation with the City and the Fernie Tennis Club, constructed three asphalt tennis courts in Prentice Park. These became part of the sports facilities provided for residents through the donation to the community of that park in 1972.

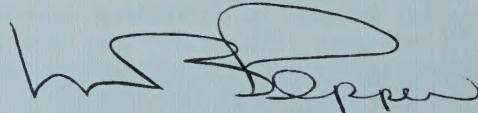
Management Changes

Management has been expanded and strengthened by the appointment of Mr. N. S. Denmark, as General Manager Forest Products, and Mr. G. W. Barnes, as Manager of Corporate Development.

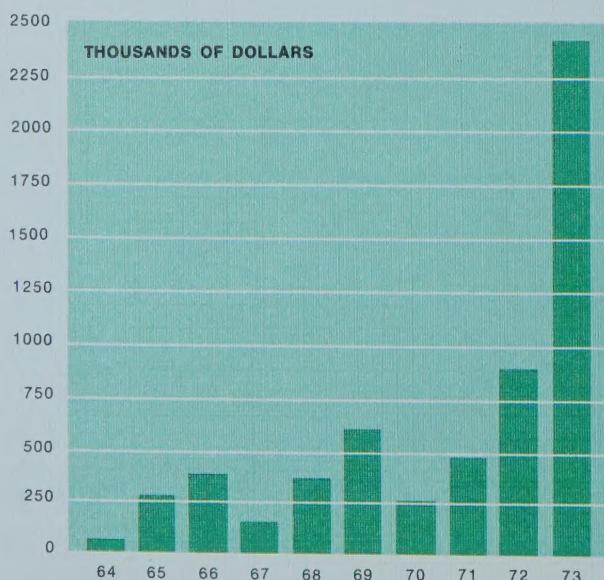
Outlook

At the time of writing, 1974 does not appear to have the earning potential that was achieved in 1973. Uncertainties are facing the Forest Product Operation. Lumber prices are most volatile and demand is severely influenced by world economic conditions. Funds will also have to be spent to alter certain areas of the sawmill so that it can more efficiently process the small size logs. During the coming year, the Company will be able to quantify the expected adverse effect on earnings of the newly introduced stumpage appraisal system. The present labor contract expires June 30, 1974. Negotiations between the forest products industry and the IWA for a new agreement may be troublesome.

Despite these major problems, the Company is confident that in 1974 it will be able to maintain the sound financial position achieved over the last three years.



M. BRUCE PEPPER
President



PROVINCIAL STUMPAGE AND ROYALTY PAYMENTS

1964	\$ 67,973
1965	270,517
1966	394,688
1967	157,835
1968	372,556
1969	622,090
1970	263,400
1971	496,498
1972	906,783
1973	2,430,707
	\$ 5,983,047

**FINANCIAL
STATEMENTS**





CROWS NEST INDUSTRIES LIMITED
(Incorporated under the laws of Canada)
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

consolidated balance sheet december 31, 1973 and 1972

ASSETS

	1973	1972
CURRENT:		
Cash and term deposits	\$ 2,921,000	\$ 132,000
Accounts receivable	1,188,000	1,265,000
Inventories (Note 2)	3,328,000	1,750,000
Prepaid expenses	83,000	92,000
	7,520,000	3,239,000
FIXED:		
Forest products —		
Timber cutting rights, roads and real estate less accumulated depletion of \$2,805,000 (1972 — \$2,016,000)	1,960,000	1,818,000
Plant and equipment less accumulated depreciation of \$3,459,000 (1972 — \$3,472,000)	5,911,000	5,725,000
Petroleum and natural gas —		
Acquisition and productive development costs less accumulated depletion of \$2,596,000 (1972 — \$2,522,000)	752,000	818,000
Production equipment less accumulated depreciation of \$1,356,000 (1972 — \$1,258,000)	419,000	447,000
Coal —		
Acquisition, exploration and development costs	1,582,000	1,547,000
	10,624,000	10,355,000
OTHER:		
Notes receivable (Note 4)	122,000	—
Deferred costs (Note 3)	1,295,000	1,304,000
Deposits and mortgages receivable	103,000	179,000
	1,520,000	1,483,000
	\$19,664,000	\$15,077,000

See accompanying notes.

LIABILITIES**CURRENT:**

	<u>1973</u>	<u>1972</u>
Bank loans	\$ —	\$ 332,000
Accounts payable and accrued charges	1,620,000	1,338,000
Income taxes payable	642,000	—
	<u>2,262,000</u>	<u>1,670,000</u>
DEFERRED INCOME TAXES	<u>1,083,000</u>	<u>561,000</u>

SHAREHOLDERS' EQUITY:

Capital (Note 4) —

Authorized —

12,000 6% Cumulative Redeemable Convertible
Preferred Shares of \$25 par value each

1,187,950 common shares of \$8 par value each

Issued —

4,884 Series "A" preferred shares	122,000	—
745,872 common shares	5,968,000	5,968,000
Contributed surplus	567,000	567,000
Retained earnings	9,662,000	6,311,000
	<u>16,319,000</u>	<u>12,846,000</u>

On behalf of the Board:

T. F. GLEED, Director

F. D. PRATT, Director

\$19,664,000 \$15,077,000



**CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES**

**consolidated statement of retained earnings
for the years ended december 31, 1973 and 1972**

	1973	1972
Balance, beginning of year	\$ 6,311,000	\$ 4,195,000
Net income for the year	4,102,000	2,489,000
Less dividends —		
Preferred	(5,000)	—
Common	(746,000)	(373,000)
Balance, end of year	<u>\$ 9,662,000</u>	<u>\$ 6,311,000</u>

**consolidated statement of source and application of funds
for the years ended december 31, 1973 and 1972**

	1973	1972
Source of funds:		
Net income for the year	\$ 4,102,000	\$ 2,489,000
Add charges not requiring an outlay of funds:		
Depreciation and depletion	1,677,000	1,339,000
Deferred income taxes	522,000	113,000
Funds provided from operations	<u>6,301,000</u>	<u>3,941,000</u>
Preferred shares issued	122,000	—
Total funds provided	<u>6,423,000</u>	<u>3,941,000</u>

Application of funds:

Purchase of fixed assets — net	1,946,000	1,490,000
Dividends paid	751,000	373,000
Other	37,000	(20,000)
Total funds applied	<u>2,734,000</u>	<u>1,843,000</u>
Increase in working capital	3,689,000	2,098,000
Working capital (deficiency), beginning of year	1,569,000	(529,000)
Working capital, end of year	<u>\$ 5,258,000</u>	<u>\$ 1,569,000</u>

See accompanying notes.



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

consolidated statement of income
for the years ended December 31, 1973 and 1972

	1973	1972
Sales:		
Forest products	\$17,724,000	\$11,650,000
Petroleum and natural gas	989,000	965,000
	<u>18,713,000</u>	<u>12,615,000</u>
 Operating costs and expenses:		
Forest products	11,323,000	8,495,000
Petroleum and natural gas	270,000	254,000
Exploration	23,000	40,000
General and administrative	627,000	599,000
Interest	31,000	71,000
Depreciation	813,000	705,000
Depletion	864,000	634,000
	<u>13,951,000</u>	<u>10,798,000</u>
 Operating income	<u>4,762,000</u>	<u>1,817,000</u>
 Other income:		
Cash payments arising from sale of coal properties in 1968 (Note 5)	52,000	619,000
Interest and other	233,000	70,000
Gain on sale of property	105,000	96,000
	<u>390,000</u>	<u>785,000</u>
 Income before income taxes	<u>5,152,000</u>	<u>2,602,000</u>
Income taxes	2,260,000	905,000
Income before extraordinary item	<u>2,892,000</u>	<u>1,697,000</u>
 Extraordinary item:		
Income tax reduction arising from loss carry forward	1,210,000	792,000
Net income for the year	<u>\$ 4,102,000</u>	<u>\$ 2,489,000</u>
 Per share (Note 4)		
Income before extraordinary item	\$3.87	\$2.28
Extraordinary item	1.62	1.06
Net income	<u>\$5.49</u>	<u>\$3.34</u>

See accompanying notes.



**CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES**

Notes to consolidated financial statements
December 31, 1973

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated on consolidation.

(b) Inventories

Inventories are stated at the lower of average cost and net realizable value. Average cost includes laid down costs of materials as well as applicable direct labour and overhead.

(c) Fixed assets

The carrying costs of productive properties and exploration and non-productive development costs of petroleum and natural gas properties are expensed as incurred. Acquisition costs of properties and productive development costs are capitalized.

The fixed assets are valued at cost less accumulated depreciation and depletion. Depreciation is based on the estimated useful lives of the assets and is provided on the straight line method for the sawmill and the reducing balance method for other plant and equipment. Depletion is provided on timber assets and oil and gas interests on the unit of production method based on estimated reserves of timber, oil and gas.

Acquisition, exploration, development and carrying costs of coal properties are capitalized except for costs applicable to unevaluated properties which are written off as incurred.

(d) Deferred costs

Costs applicable to the development of projects are deferred until such time as the related projects are completed or abandoned. At that time such costs are capitalized or expensed as appropriate.

2. INVENTORIES

	1973	1972
Logs	\$2,424,000	\$ 893,000
Lumber	615,000	631,000
Materials and supplies	289,000	226,000
	<hr/> \$3,328,000	<hr/> \$1,750,000

3. DEFERRED COSTS

Deferred costs consist primarily of expenditures incurred in connection with a proposed railway. Although the Company was estopped from building the railway, these costs have continuing value in view of the potential future development of coal and other resource properties in the area.

4. SHARE PURCHASE PLAN

During the year the Company increased its authorized capital to include 12,000 6% Cumulative Redeemable Convertible Preferred Shares of \$25 par value each.

On May 7, 1973 the Company issued to a trustee for certain officers and employees, under an Executive Share Purchase Plan, 4,884 Series "A" preferred shares for cash of \$122,000 which was advanced by the Company. This advance is evidenced by notes receivable which are secured by the preferred shares issued.

The Series "A" preferred shares are convertible into common shares of the Company at the rate of ten common shares for eleven preferred shares.

Conversion of all preferred shares would not materially dilute earnings per share.

5. PAYMENTS ARISING FROM SALE OF COAL PROPERTIES IN 1968

As part of the consideration for the sale of the Company's coal properties to Kaiser Steel Corporation in 1968, the Company is entitled to receive payments of 50 cents per ton of coal produced and shipped after January 1, 1977 from the properties sold. These payments are limited to an aggregate of \$34 million and will be included in income as received.

In addition, the Company has received a series of non-taxable cash payments (1973 — \$52,000; 1972 — \$619,000). The final payment of this series was received during 1973.

6. STATUTORY INFORMATION — CANADA CORPORATIONS ACT

Remuneration of ten directors	\$ 17,000
Remuneration of five officers	\$154,000

Two officers are also directors.

auditors' report

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1973, the results of their operations, and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 28, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

ten year summary of comparative highlights

	1973	1972	1971
Sales of all products	\$ 18,713,000	\$12,615,000	\$ 8,953,000
Income (loss) before extraordinary items	2,892,000	1,697,000	914,000
Extraordinary items	1,210,000	792,000	273,000
Net income (loss) for year	4,102,000	2,489,000	1,186,000
Income (loss) per common share			
From operations	3.87	2.28	1.22
Extraordinary items	1.62	1.06	.37
Total	5.49	3.34	1.59
Common shareholders' equity	16,197,000	12,846,000	10,730,000
Equity per common share	21.70	17.22	14.39
Cash dividends declared (common)	746,000	373,000	186,000
Dividends per common share	\$1.00	50¢	25¢
Depreciation and depletion	1,677,000	1,339,000	1,245,000
Capital expenditures	2,065,000	1,553,000	720,000
Working capital	5,258,000	1,569,000	(529,000)
Production—lumber (fbm)	117,685,885	99,416,526	92,326,957
Production—oil (bbls)	259,254	329,917	351,800
Production—coal, coke and breeze (tons)	—	—	—
Number of employees at year-end	391	404	394
Common shares at year-end			
Number outstanding	745,872	745,872	745,872
Percentage held by—Canadians	39%	41%	41%
—Other	61%	59%	59%
Number of shareholders at year-end			
Canadian	235	246	261
Other	237	228	222

1970	1969	1968	1967	1966	1965	1964
\$12,382,000	\$11,189,000	\$12,002,000	\$15,966,000	\$14,071,000	\$13,073,000	\$ 8,869,000
(2,726,000)	(1,515,000)	479,000	381,000	469,000	489,000	495,000
(2,513,000)	—	7,020,000	—	86,000	597,000	567,000
(5,239,000)	(1,515,000)	7,500,000	381,000	555,000	1,086,000	1,062,000
(3.65)	(2.07)	.66	.52	.65	.68	.69
(3.37)	—	9.59	—	.12	.83	.79
(7.02)	(2.07)	10.25	.52	.77	1.51	1.48
9,730,000	15,079,000	17,142,000	10,103,000	10,236,000	10,147,000	9,570,000
13.04	20.62	23.45	13.91	14.12	14.12	13.38
110,000	548,000	548,000	544,000	541,000	552,000	536,000
15¢ + 2% stk	75¢	75¢	75¢	75¢	75¢	75¢
1,157,000	863,000	637,000	1,135,000	1,319,000	1,185,000	796,000
1,262,000	5,425,000	2,395,000	1,090,000	1,804,000	2,849,000	2,518,000
(11,691,000)	(8,573,000)	(766,000)	473,000	888,000	1,246,000	2,192,000
91,822,345	53,823,668	39,489,957	47,831,535	68,813,323	68,375,793	24,275,253
344,593	290,846	233,582	174,086	170,008	185,225	221,128
—	—	167,617	1,105,387	1,009,003	924,531	978,441
420	428	344	818	830	935	823
745,872	731,175	731,175	726,550	724,675	718,425	715,120
41%	40%	26%	26%	30%	24%	18%
59%	60%	74%	74%	70%	76%	82%
258	255	252	305	364	311	247
237	228	261	253	275	314	355

